

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>In The Matter Of The Application</b>	<b>:</b>	<b>Docket No. 03-035-14</b>
<b>Of PacifiCorp For an Order</b>	<b>:</b>	<b>Surrebuttal Testimony Of</b>
<b>Approving Avoided Cost Rates</b>	<b>:</b>	<b>Kelly Francone for the</b>
	<b>:</b>	<b>Committee of</b>
	<b>:</b>	<b>Consumer Services</b>

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**12 May 2004**

1 Introduction

2 **Q. Please state your name, business address and current position.**

3 A. My name is Kelly Francone. My business address is 160 East 300 South,  
4 Salt Lake City, Utah. I am a utility analyst for the Committee of Consumer  
5 Services (Committee).

6 **Q. Have you previously presented testimony on this docket?**

7 A. Yes. I filed direct testimony on 12 April 2004 and rebuttal testimony on 6  
8 May 2004.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to provide comments on the rebuttal  
11 testimony presented by PacifiCorp witness Bruce Williams regarding the  
12 accounting issues.

13 **Q. Does the Committee believe that Qualifying Facility contracts may  
14 have an impact on PacifiCorp's financial standing?**

15 A. The Committee believes that the recently implemented accounting issues  
16 (Emerging Issues Task Force (EITF) 01-08 and Financial Interpretation  
17 No. 46R (FIN 46R) may impact the level of the debt shown on the utility's  
18 balance sheet. However, there are other factors, such as market  
19 conditions and PacifiCorp's overall capital structure that can also influence  
20 PacifiCorp's financial standing. Whether or not a higher cost of debt or a  
21 downgrade in PacifiCorp's financial rating results from the recording of the  
22 additional debt on the balance sheet is dependant on the Company's  
23 capital structure and financial ratios at that point in time. While rating  
24 agencies like Standard & Poor's (S&P) have considered such contracts for  
25 years, the Committee has not been persuaded that it will have the impact  
26 PacifiCorp implies, or that the method the Company has chosen to  
27 recover the financial impact is the correct one.

28 **Q. Was the Company able to cite any other jurisdictions that are  
29 following the approach PacifiCorp is recommending in this case?**

1 A. No. At page 5, lines 17-19 of his testimony, Mr. Williams states: “As noted  
2 earlier, regulators in other jurisdictions have also approved procedures to  
3 quantify and recognize the costs associated with the financial impact of  
4 purchased power.” The only other jurisdiction identified by Mr. Williams  
5 was the Florida Public Service Commission. He has cited only one case  
6 before that commission in which there was a quantification of the costs  
7 associated with the financial impact, which happened to be a decision  
8 dated September 1999.

9 **Q. Does the Committee agree with Mr. Williams’ interpretation of the**  
10 **actions taken by the Florida Public Service Commission regarding**  
11 **the accounting issues?**

12 A. The Committee agrees that the Florida Commission has examined the  
13 issue, but our understanding is that this Commission requires nothing  
14 more than discussion on its impact. As noted by Mr. Williams, Florida  
15 Commission Rule 25-22.081 (CCS SR-Exhibit1.1) states that the petition  
16 shall include “a *discussion* of the potential for increases or decreases in  
17 the utility’s cost of capital.” It does not require that any action or  
18 adjustment be made to the purchased power agreement (PPA). In  
19 addition, in a September 1999 Commission Order (CCS SR-Exhibit 1.2)  
20 the Florida Commission states on page 9: “the discussion of the perceived  
21 need for utilities to increase the level of equity in the capital structure to  
22 offset the adjustment made to the financial ratios by rating agencies and  
23 how this affects the overall cost of capital has not been specifically  
24 addressed.”

25 **Q. In light of the Florida Commission Order, does PacifiCorp propose to**  
26 **purchase equity with the QF contract adjustment to make the**  
27 **Company whole in the eyes of a rating agency?**

28 A. The Committee has asked for that information in a data request that is still  
29 outstanding. However, the Company’s testimony is moot on this issue. If  
30 the Company does not issue equity in the period in which it offsets the  
31 payments to the QFs under its proposed method, there will be no impact

1 on PacifiCorp's actual capital structure and financial ratios resulting from  
2 its proposed calculation.

3 **Q. Has the Florida Commission actually applied an equity adjustment to**  
4 **any PPA contracts?**

5 A. The only PPA with an equity adjustment that the Committee is aware of is  
6 for Florida Power & Light (FPL). Because S&P assigns a 10 percent risk  
7 factor to existing cogeneration contracts (page 8 CCS SR Exhibit 1.2), the  
8 Florida Commission allowed a 10 percent risk factor adjustment on this  
9 one contract. It is the Committee's understanding that PacifiCorp's  
10 proposed calculation is effectively 100 percent of the amount to be used if  
11 debt is actually added to the balance sheet under EITF 01-08, and 30  
12 percent if not added as debt. These are significantly higher than 10  
13 percent. In addition, on page 9 of its 1999 Order (CCS SR-Exhibit 1.2),  
14 the Florida Commission states that, "While we are approving FPL's  
15 request .... the broader policy of the issue of who would bear the  
16 incremental cost of additional equity to compensate for purchased power  
17 contracts has not been addressed."

18 **Q. Are you aware of any changes in how the Florida Commission**  
19 **currently addresses the risk factor since the 1999 FPL Order?**

20 A. In a phone call with the Florida Commission, staff analyst Todd Bohrmann  
21 indicated that the risk factor is looked at by the commission and  
22 considered when making comparisons, but that he was not aware of any  
23 reductions in payments to QFs for a debt or capital structure balancing  
24 component.

25 **Q. Does the Committee have a recommendation on the accounting**  
26 **issues at this time?**

27 A. The Committee believes that it would be inappropriate for the Commission  
28 to make a determination on issues that have not yet been fully evaluated.  
29 The Committee recommends that this issue, as well as others, should be  
30 examined by the QF "working group" referenced by Dr. Powell and Scott  
31 Gutting of UAE. It is apparent that the accounting issues are new on the

1 regulatory front and parties have not had the necessary time to effectively  
2 determine their impact on PacifiCorp. A task force would allow additional  
3 time to thoroughly examine the complex issue of financial risk and provide  
4 a platform for discussion.

5 **Q. Does this conclude your testimony?**

6 A. Yes.